



Advising the Congress on Medicare issues

Adequacy of outpatient dialysis payments

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December 7, 2007

Payment adequacy factors

- Beneficiaries' access to care
- Providers' capacity
- Changes in the volume of drugs
- Changes in the quality of care
- Providers' access to capital
- Payments and costs for 2008

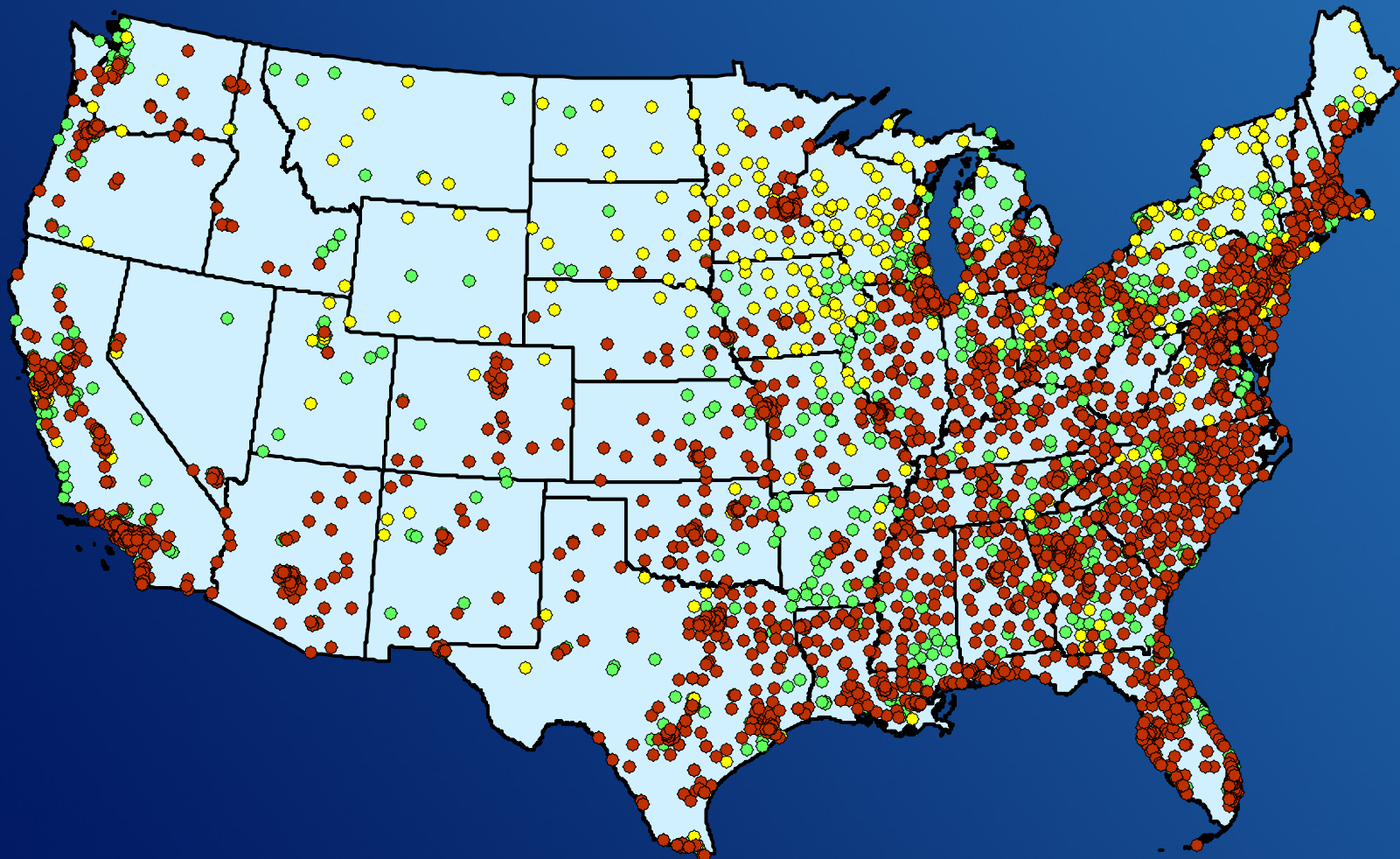
Beneficiaries' access to care

- Net increase in the number of facilities and stations from year to year
- The number of facilities and dialysis stations has kept pace with patient growth
- Little change in the mix of patients cared for by different provider types (e.g., freestanding, hospital-based) between 2005 and 2006
- Facility closures linked to size and profitability
- Dual eligibles and African Americans over-represented in facilities that closed in 2005

What is the industry structure?

- Increasing proportion of facilities are freestanding and for profit
- About 60 percent of all facilities and 70 percent of freestanding facilities are affiliated with 2 national chains

Dialysis facility by ownership



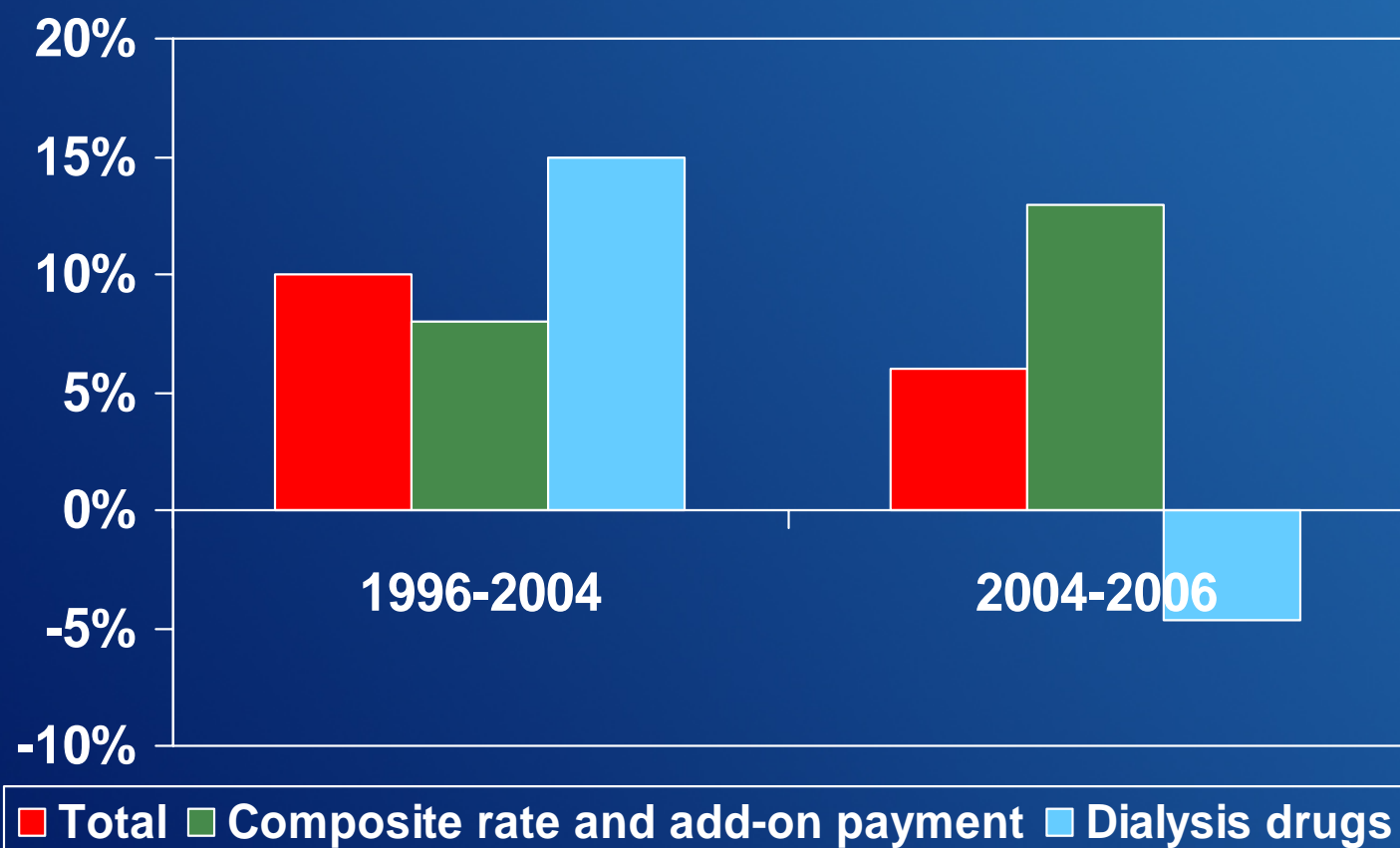
Dialysis volume and payments

- The growth in the number of in-center hemodialysis treatments generally kept pace with the growth in the number of dialysis patients
- Between 2004 and 2006, total payments to providers grew more slowly than in the past
 - Drug spending decreased while composite rate spending increased
- MMA accounts for change in trends

MMA changed outpatient dialysis payment method

- Decreased the payment rate of separately billable drugs; CMS paid:
 - Average acquisition payment for most dialysis drugs in 2005
 - 106 percent of the average sales price for all dialysis drugs in 2006
- Increased the composite rate payment
 - Add-on payment was 14.5 percent in 2006

MMA changed annual growth in spending for composite rate services and drugs



Data are preliminary and subject to change.

How did the volume of drugs change since 2004?

- Aggregate volume of most dialysis drugs increased but more slowly than in previous years
- Small increase in the erythropoietin dose per treatment
- The proportion of patients receiving adequate dialysis and with their anemia under control remained stable

Factors affecting growth in dialysis drug use

- Newly approved drugs were effective; clinical guidelines recommended their use
- Drugs were profitable under pre-MMA policies
- In 2006, drugs remain profitable (although less so) for many providers
- Paying according to the number of units given to patients means that providers derive greater profits from larger doses than smaller doses

Quality of care between 2000 and 2005

- Proportion of patients receiving adequate dialysis and with their anemia under control increased
- Proportion of patients receiving an AV fistula increased
- No improvement in patients' nutritional status
- Rates of hospitalization and mortality are high

Providers' access to capital

- Increasing number of facilities that are for profit and freestanding
- Two largest chains have enjoyed positive ratings from analysts
- Both small and large chains have access to private capital to fund acquisitions

Audit correction

- We analyzed 2004 and 2005 audited cost report data
- We found a smaller difference between reported and allowed costs for audited facilities in 2004 and 2005 than in 2001
- We did not correct cost per treatment as we have done in previous years
- Next year, we will update our analysis and re-evaluate whether to correct costs for audit